Great Northern Capital Corporation Limited
Annual Report 1970

GREAT NORTHERN CAPITAL CORPORATION LIMITED

AND ITS SUBSIDIARY COMPANIES

GNC

INTERIM REPORT

for the six months ended June 30, 1970

GREAT NORTHERN CAPITAL CORPORATION LIMITED AND ITS SUBSIDIARY COMPANIES

TO THE SHAREHOLDERS:

In light of the general market condition and more particularly the realty market, the first half results are encouraging.

Your management is confident that performance will be at least as good for the second half.

R. H. McISAAC, *President*

CONSOLIDATED STATEMENT OF INCOME

for the six months ended June 30, 1970
(with comparative figures for the six months ended June 30, 1969)
(Unaudited)

	Thousands of Dollars 1970	1969
Income:		
Land	$ 3,645	$ 2,380
Manufacturing and other	11,629	8,895
Income-producing properties and leasing	1,238	—
Interest and other	331	295
	16,843	11,570
Expenses:		
Cost of land sold	1,577	787
Manufacturing and other cost of sales	9,206	5,985
Selling and administrative	3,404	3,430
Income-producing properties and leasing (including interest of $295,000)	764	—
Interest—		
Long-term (including debt discount amortization)	588	425
Other	205	93
Minority interest	(2)	45
	15,742	10,765
	1,101	805
Income taxes	1,226	644
Income (loss) before extraordinary items	(125)	161
Add income tax credits resulting from the application of loss carry-forwards	1,202	618
Net income for the period	$ 1,077	$ 779
Earnings per share (based on the weighted average number of shares outstanding during the period)	$ 0.46	$ 0.35

Depreciation, depletion and amortization included above amounts to $842,000.

CONSOLIDATED STATEMENT OF WORKING CAPITAL AND SOURCE AND APPLICATION OF FUNDS

for the six months ended June 30, 1970
(with comparative figures for the six months ended June 30, 1969)
(Unaudited)

	Thousands of Dollars 1970	1969
Balance of working capital at beginning of the period	$ 4,370	$ 5,662
Funds provided by:		
Operations, excluding charges not requiring funds (depreciation, depletion, amortization and other of $869,000 in 1970 and $443,000 in 1969)	1,946	1,222
Issue of 5% convertible income debentures	—	9,677
Net increase in other long-term debt	9,586	1,317
Net reduction (increase) of notes and mortgages receivable	810	(46)
	12,342	12,170
Funds used for:		
Increase in non-current portion of land inventory	1,365	2,692
Purchase of Rodell Corporation (1967) Limited less working capital at date of acquisition	—	1,115
Net purchases of fixed assets	9,846	1,130
Other investment	215	—
Investment in income-producing properties	615	375
Other (net)	99	(183)
	12,140	5,129
Net increase in working capital	202	7,041
Balance of working capital at end of the period	$ 4,572	$12,703

Executive Offices, Fourteenth Floo
Toronto Professional Building, Toronto, Ontario
(owned by your company

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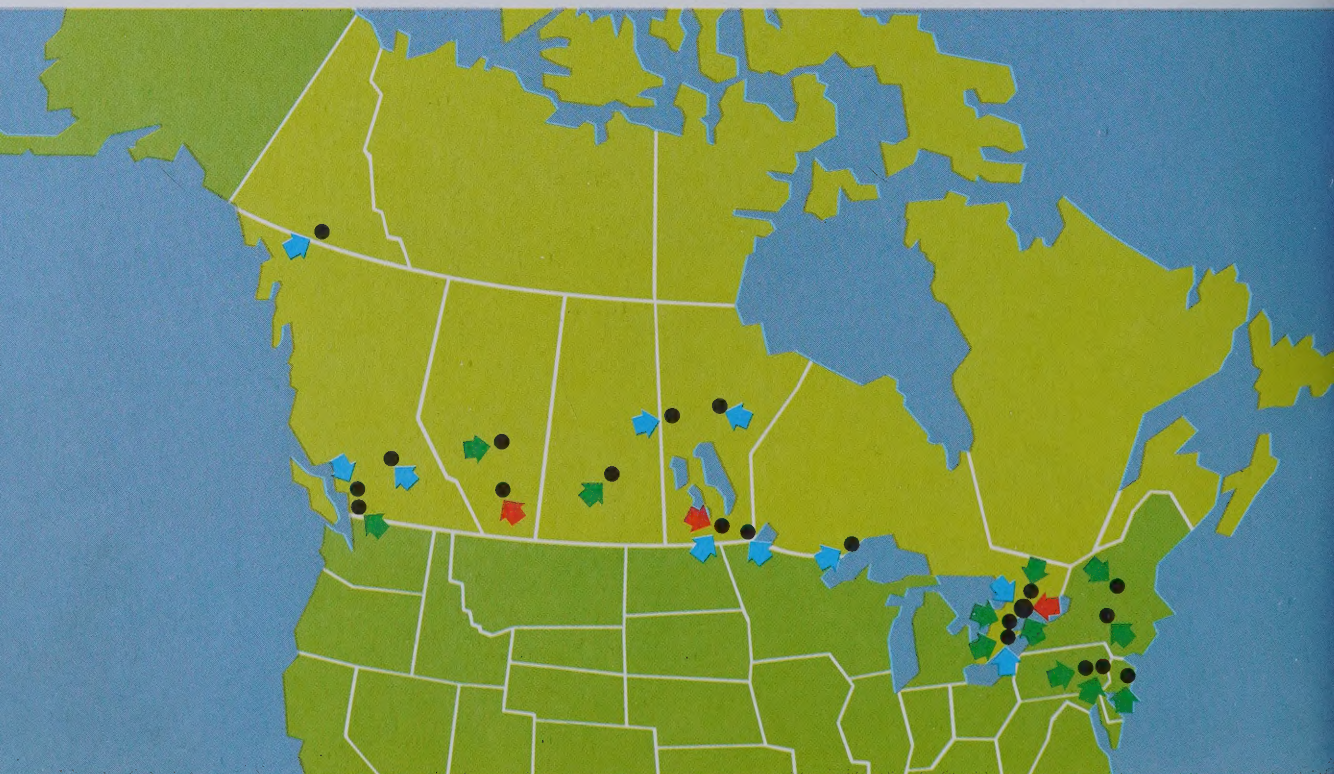


CODE:
INCOME-PRODUCING PROPERTIES
INDUSTRIAL OPERATIONS
LAND DEVELOPMENT

Directors

* A. L. Beattie, Q. C.
Osler, Hoskin & Harcourt
Toronto

S. R. Horne
Investment Manager,
Anmercosa Finance Limited
Toronto

A. P. Murphy
Financial Consultant
133 Teddington Park Ave.,
Toronto

* R. H. McIsaac
President,
Great Northern Capital
Corporation Limited
Toronto

* G. F. H. Nelson
Assistant to the President,
United States Steel & Carnegie
Pension Fund
New York, N.Y.

* G. J. Risby
Vice President-Treasurer,
Anglo American Corporation
of Canada Limited
Toronto

J. D. Taylor, Q.C.
Fasken & Calvin
Toronto

* R. M. Thomson
Chief General Manager,
The Toronto-Dominion Bank
Toronto

*Member of Executive Committee

The Annual Meeting of Shareholders of Great Northern Capital Corporation Limited will be held on Monday the 22nd day of March, 1971, at 2:30 P.M. (Eastern Standard Time) in the Humber Room, the Old Mill Restaurant, 21 Old Mill Road, Toronto, Ontario.

Officers

R. H. McIsaac
President

E. D. Marchant, C.A.
Vice President—Finance

J. C. Davies, C.A.
Vice President—Properties

J. D. Ritchie
Vice President—Realty Planning

C. D. Smith, P.Eng.
Vice President—Engineering & Construction

A. R. Voelker, C.A.
Vice President—Corporate Planning

H. F. Pacher, C.A.
General Manager, Administration

D. E. Fox, C.A.
Secretary and Treasurer

R. R. Stone, C.A.
Comptroller

Officers of GNC Industries Limited

A. V. Mauro, Q.C., LL.M.
President
Toronto

G. C. McIsaac
Vice President and General Manager
Western Division
Winnipeg

H. V. Henderson
Vice President and General Manager
Brick Division
Burlington, Ontario

Registrars and Transfer Agents:
CROWN TRUST COMPANY
Toronto, Montreal, Calgary and Vancouver
THE BANK OF NOVA SCOTIA TRUST CO.
OF NEW YORK

Fiscal Agents:
HARRIS & PARTNERS—Toronto

Listing:
The Common Shares of the Company are listed on
The Toronto Stock Exchange
(GN Capital)

Auditors:
CLARKSON, GORDON & CO.—Toronto

Head Office:
14th Flr., 123 Edward St.,
Toronto, Ontario.

President's Report
To the Shareholders

I am pleased to present the report of your Company for the year ended December 31, 1970.

The past year was one of continuing challenge. The anti-inflationary policies were evident in the scarcity and high cost of debt capital. At the same time there was a marked downturn in the number of housing starts and a stiffening in price competition.

The degree to which this challenge was met is reflected in the accompanying financial reports. The diversity in both the nature and the location of corporate assets made possible the improvement of operating results during a time of generally unfavourable economic conditions.

The reduction in residential lot sales in Eastern Canada and leisure lots in the United States was more than offset by a record year in Western Canada.

A modest beginning has been made in our announced programme of developing or acquiring income-producing properties and results to date are encouraging. Income was received in 1970 from the Toronto Professional Building, a 16-storey office tower in downtown Toronto, and 54 townhouse units in Markham. The Towers of Polo Park, a 15-storey residential-commercial building in Winnipeg is near completion and income from this source will be reflected in 1971 earnings.

Construction of an 8-storey office building in Calgary began in October and it will be available for occupancy during the last quarter of 1971.

Various other projects are in the planning stage with at least two presently programmed for 1971. The expansion of our holdings in income properties will not only provide increased cash flow, but also will assist in stabilizing our earnings pattern.

Results from industrial operations reflect the difficulties flowing from the "cost-price squeeze" of the past year. While the cost of labour and materials continued an upward spiral, the slowdown in economic activity and intensified competition made it impossible to increase prices to a level that would permit full recovery of increased costs. While industrial sales increased by 16.8%, gross profit and net contribution remained relatively stable.

We have taken necessary steps to improve productivity and eliminate uneconomic operations. As a result of a thorough reassessment, it was determined that the continued operation of Empire Clay Products Inc., in Buffalo, owned by the Company for a number of years, could not be justified. The termination of this opertion resulted in a write-off of $607,329 reported under other extraordinary items. Partially offsetting this extraordinary loss was an extraordinary gain on foreign exchange of $559,737. The peat moss operation in Cornwall was sold during the year and a small gain realized.

We anticipate a continued high level of activity in the industrial division during 1971 and, with corrective measures introduced, a marked improvement in net contribution.

Administrative Offices, 35 Old Mill Road, Toronto. (owned by your company)

The leasing programme which commenced in 1969 was expanded during the past year with significant benefits for your Company.

As a further extension of existing operations, it was decided that the special talents of planning, designing, engineering and supervision already in the Company for our own realty development, should be offered as a service to other organizations. We are actively pursuing this programme, particularly where there is a major potential application for the concrete building system that was developed by our organization during the past year. The on-site precasting system first used on the Towers of Polo Park was followed by a single-family prototype model and is currently being used in our Calgary construction. We are optimistic about future opportunities for the building system and the engineering services operations.

The operational reorganization started in 1969, carried through into 1970 and culminated in the complete reorganization of our corporate structure at the shareholders' meeting on October 28th.

All of the industrial divisions have been merged into a single group headed up by a newly-named company, GNC Industries Limited. Real estate operations are now carried out in three companies: Home Smith Limited, a holding company; Home Smith Properties Limited for Canadian operations; and Home Smith International Limited for operations in the United States of America. Sorting out our many holdings from the multitude of companies organized and reorganized over 60 years of business operations was an exceptionally complex and arduous task, and I acknowledge and commend those assigned this responsibility.

Accounting practices were reviewed and new policies established. The timing was particularly opportune in view of the new rules and recommendations by the many regulatory bodies and associations concerned. Uniform procedures on depreciation were adopted and we are now capitalizing property taxes and interest as part of the carrying costs of land inventories. These main items, together with a change in reporting on Columbia Forest Products Ltd., require us to restate 1969 earnings.

We now have a well-organized management and corporate structure and clearly-defined objectives and goals, that are more easily explained and reported on to our shareholders and the financial community.

It is generally acknowledged that 1970 was not a particularly bright year for growth in corporate profits. I hope the improvement of approximately 45% in earnings will encourage you as much as it does your management about the future prospects for your Company.

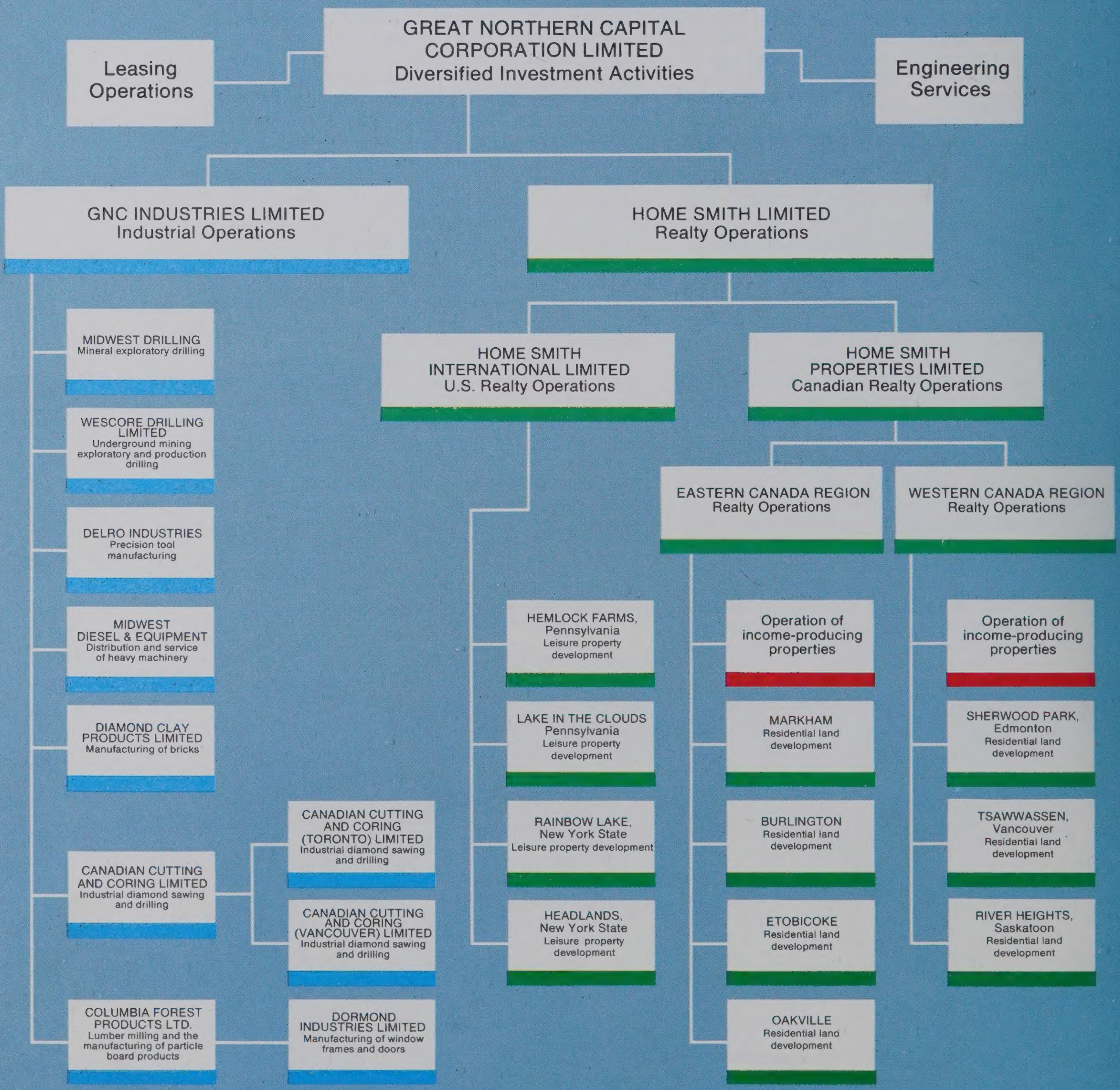
The Board acknowledges the many years of valuable service of Mr. James Boisi of New York who has found it necessary to relinquish his position on the Board.

On behalf of the Board.

President.

Head Office Project Review Committee (left to right: J. C. Davies, Vice President—Properties; C. D. Smith, Vice President—Engineering & Construction; R. H. McIsaac, President; J. D. Ritchie, Vice President—Realty Planning)

Corporate Structure



CODE:
- INCOME-PRODUCING PROPERTIES
- INDUSTRIAL OPERATIONS
- LAND DEVELOPMENT

Consolidated Statement of Income
for the years ended December 31

	1970	1969
Revenue:		
Land sales	**$ 9,781,121**	$ 9,043,108
Rentals from income-producing properties	**925,488**	338,802
Manufacturing and other	**19,303,484**	16,515,740
Leasing, interest and other income	**2,395,822**	734,038
Gross revenue	**32,405,915**	26,631,688
Expenses:		
Cost of land sold	**4,725,045**	3,752,571
Operating cost of income-producing properties including interest of $290,710 ($110,679 in 1969)	**699,404**	313,837
Manufacturing and other cost of sales	**14,680,226**	12,239,030
Selling and administrative	**7,258,674**	6,824,414
Interest:		
Long-term (including debt discount amortization)	**1,495,333**	831,665
Other	**524,604**	212,309
	29,383,286	24,173,826
Income before undernoted items	**3,022,629**	2,457,862
Income taxes	**1,990,000**	1,765,000
Income before extraordinary items (note 14)	**1,032,629**	692,862
Add extraordinary items:		
Income tax credits resulting from the application of loss carry-forwards (note 17)	**2,249,000**	1,537,000
Other (notes 1 (b) and 16)	**(47,592)**	—
	2,201,408	1,537,000
Net income (note 14)	**$ 3,234,037**	$ 2,229,862
Depreciation, depletion and amortization included above (note 2)	**$ 649,939**	$ 700,418

The accompanying notes are an integral part of the financial statements.

Consolidated Balance Sheet

as at December 31

ASSETS	1970	1969
Current:		
Cash	$ 311,888	$ 272,894
Trade accounts, leases and sale agreements receivable	13,024,218	5,212,100
Inventories:		
Land, including development costs of $2,688,000 in 1970 ($2,720,026 in 1969) (note 5)	4,244,703	3,373,961
Manufacturing and other, at the lower of cost or estimated net realizable value	4,479,107	4,292,469
Prepaid expenses	213,981	196,289
Total current assets	22,273,897	13,347,713
Restricted bank deposits (note 4)	452,706	135,385
Land inventory, less amount included in current assets (note 5)	8,657,141	7,705,668
Long-term leases, net of $11,013,000 unearned income, less amounts included in current assets (note 3)	8,830,331	—
Notes, mortgages and sale agreements receivable, less amounts included in current assets (note 6)	2,297,065	3,590,214
Other investment (note 7)	1,215,000	1,000,000
Investment in joint ventures (note 8)	867,727	1,272,390
Income-producing properties, at cost, less accumulated depreciation of $68,982	7,456,072	6,608,791
Fixed assets (note 9)	8,377,439	8,160,615
Deposit on aircraft	—	2,412,422
Other assets, at cost	282,242	306,455
	$60,709,620	$44,539,653

The accompanying notes are an integral part of the financial statements.

GNC

LIABILITIES AND SHAREHOLDERS' EQUITY	1970	1969
Current:		
Bank indebtedness—secured (note 10)	$ 6,174,303	$ 1,785,623
Accounts payable and accrued liabilities	4,728,695	3,110,704
Income taxes payable	73,010	286,044
Estimated costs to complete subdivisions under development (note 5)	2,115,027	1,636,913
Current instalments on long-term debt, including accrued interest	3,728,666	2,582,077
Total current liabilities	16,819,701	9,401,361
Deferred income taxes	229,128	441,175
Long-term debt, less instalments included in current liabilities (note 11)	19,370,935	13,648,074
5% convertible income debentures due 1979 (note 12)	9,677,100	9,677,100
Shareholders' equity:		
Capital stock (note 13)		
Authorized:		
7,500,000 shares without par value		
Issued and fully paid:		
2,329,992 shares (2,327,833 in 1969)	3,224,060	3,210,894
Surplus (notes 11 and 12)	11,388,696	8,161,049
Total shareholders' equity	14,612,756	11,371,943
	$60,709,620	$44,539,653

On behalf of the Board:

R. H. McIsaac, *Director*

G. J. Risby, *Director*

Consolidated Statement of Surplus
for the years ended December 31

EARNED SURPLUS	1970	1969
Balance at beginning of the year:		
As previously reported	$ 7,899,096	$ 6,511,578
Adjustments of prior year's income (note 2(a)(iv))	122,930	—
As restated	8,022,026	6,511,578
Add:		
Net income	3,234,037	2,229,862
Gain on conversion of subsidiary's debt into common shares	3,827	85,471
	11,259,890	8,826,911
Less:		
Write-off of excess of cost of investments in subsidiary companies over the underlying book value of their consolidated net assets at dates of acquisition	—	804,885
Balance at end of the year	11,259,890	8,022,026
APPRAISAL SURPLUS (note 5)		
Balance at beginning of the year	139,023	139,552
Less:		
Amount earned on land sold during the year	10,217	529
Balance at end of the year	128,806	139,023
Total surplus	$11,388,696	$ 8,161,049

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Working Capital and Source and Application of Funds

for the years ended December 31

	1970	1969
Balance of working capital at beginning of the year:		
As previously reported	$ 4,369,890	$ 5,662,550
Adjustment to reflect retroactive change in accounting practice (note 2(a)(ii))	(423,538)	—
As restated	3,946,352	5,662,550
Funds provided by:		
Operations:		
Net income	3,234,037	2,229,862
Depreciation, depletion, amortization and other	644,697	723,340
Deferred income taxes	(212,047)	430,775
	3,666,687	3,383,977
Issue of 5% convertible income debentures	—	9,677,100
Net increase in other long-term debt	5,734,879	4,731,437
Net decrease (increase) of notes and mortgages receivable	1,293,149	(2,212,998)
Net decrease (increase) in investment in joint ventures	404,663	(843,226)
Other—net	24,213	311,583
	11,123,591	15,047,873
Funds used for:		
Investment in long-term leases	6,417,909	2,412,422
Increase in non-current portion of land inventory	951,473	3,660,016
Investment in income-producing properties	897,014	6,574,370
Net purchases of fixed assets	817,030	2,025,304
Net increase in restricted bank deposits	317,321	135,385
Increase in other investment	215,000	1,000,000
Purchase of GNC Industries Limited less working capital at date of acquisition	—	956,574
	9,615,747	16,764,071
Increase (decrease) in working capital	1,507,844	(1,716,198)
Balance of working capital at end of the year	$ 5,454,196	$ 3,946,352

The accompanying notes are an integral part of the financial statements.

Notes to the Consolidated Financial Statements 1970

1. Statement Presentation

(a) Principles of Consolidation

In the accompanying financial statements the accounts of all subsidiary companies have been consolidated with those of the Company with the exception of Columbia Forest Products Ltd. and its subsidiary which were consolidated in the prior year. The consolidated operations of Columbia which resulted in a loss for the current year, have been excluded because the agreement under which Columbia was acquired stipulated that the Company is entitled to accumulated profits but is indemnified against accumulated losses. The 1969 figures presented for comparative purposes have been restated resulting in a $155,891 reduction of the net income previously reported.

The Company's share of the aggregate losses of Columbia Forest Products Ltd. and its subsidiary for the year amounted to $647,335 and the share of accumulated losses of these companies since date of acquisition of $491,444 has not been taken up in the consolidated accounts.

The investment in Columbia is carried in the Company's accounts at a nominal value of $1.00.

(b) Foreign Exchange

Foreign currency assets and liabilities of the Company and its domestic subsidiaries have been translated into Canadian dollars at current rates of exchange except for long-term debt which has been translated at the average rate prevailing on the forward exchange contracts arranged for these obligations. To eliminate risk on foreign exchange the Company has purchased future U.S. funds of $17,057,000.

The accounts of U.S. subsidiaries and branches have been translated at current rates except for fixed assets and depreciation provisions which were translated at the historic rates prevailing at date of acquisition. Income and expenses (other than depreciation) were translated at the average exchange rate for the year.

The net exchange gain of $559,737 resulting from the freeing of the Canadian dollar on May 31, 1970 is included as an extraordinary item in the consolidated statement of income.

(c) Minority Interest

Minority interest is not significant and has been included in selling and administrative expenses and in accounts payable.

(d) Comparative Figures

The comparative figures for 1969 have been restated to conform with the 1970 presentation.

2. Changes in Accounting Practices

(a) Changes Retroactive to 1969

(i) Interest and property taxes, previously written off in the year incurred, are now included in the carrying costs of land. This change was applied retroactively to the 1969 financial year and the 1969 comparative figures were restated accordingly (see part (iv) below). Because the amount is not significant, this change has not been reflected in the accounts for the years previous to 1969.

(ii) As set out in note 1 (a), the accounts of Columbia Forest Products Ltd. and its subsidiary are no longer consolidated with those of the Company in the accompanying statements (see part (iv) below).

(iii) The Company has changed from the straight-line basis to the sinking-fund method of providing depreciation on buildings included in income-producing properties. Under this method the costs of the buildings will be amortized over their useful lives (40 and 50 years) by a series of annual charges to income which will increase at the rate of 5% compounded annually.

This change has been made retroactive to August 1, 1969 the date of acquisition of the Company's first income-producing property. Accordingly, depreciation shown in the 1969 statements has been decreased by $34,421 (see part (iv) below).

(iv) The effect on net income previously reported for 1969 and earnings per share of the changes outlined in (i), (ii), and (iii) above are summarized below:

	Ref.	Net Income	Earnings Per Share	Fully Diluted Earnings Per Share
Change re carrying cost of land	(i)	$ 244,400	$0.11	$0.08
Exclusion of Columbia Forest Products Ltd. from consolidation	(ii)	(155,891)	(0.07)	(0.05)
Change to sinking-fund method of depreciation	(iii)	34,421	0.01	0.01
Increase in net income previously reported		$122,930	$0.05	$0.04

(b) Changes Relative to 1970

In an effort to more closely match costs and revenues, the Company revised the estimated useful lives of certain assets and adopted a uniform policy of amortizing the costs on a straight-line basis over the revised useful lives. Had these changes not been made, depreciation for 1970 would have been increased by $118,000 and net income for the year would have been $88,000 less than shown.

3. Leasing Income

The Company has used the financing method to account for the revenue from long-term leases of aircraft and other equipment. Under this method revenue is recognized in decreasing amounts over the years so as to reflect a constant return on the net investment in the equipment.

4. Restricted Bank Deposits

The restricted bank deposits represent funds lodged with certain banks as collateral security on notes which are accepted from single-family lot purchasers and discounted with these banks.

5. Land Inventory

(a) Land is carried at cost except for certain land which is carried at 1953 appraised value. The amount of the appraisal write-up remaining in the accounts as at December 31, 1970 was $128,806 ($139,023 at December 31, 1969). Appraisal surplus earned on land sold during the year has been grouped in cost of sales.

Included in the carrying cost are interest and property taxes from January 1, 1969 as explained in note 2 (a). A portion ($1,540,000 in 1970, $700,000 in 1969) of the estimated costs to complete subdivisions under development previously shown as a current liability are reflected as a deduction from the current land inventory. The 1969 figures presented for comparative purposes have been restated accordingly.

(b) Land inventory which is expected to be placed on the market within one year is classified as a current asset.

(c) Development expenses capitalized include all direct development expenditures and the pro rata share of the cost of community facilities, park dedications and school sites, but exclude general overhead.

Land sales are recognized and net income is recorded upon meeting the following criteria:

(i) receipt of 15% in cash;

(ii) commencement of interest on a sale agreement at a reasonable rate;

(iii) satisfaction of purchaser's financial stability.

6. Notes, Mortgages and Sale Agreements Receivable

The Company's investment in notes, mortgages and sale agreements receivable is recorded at cost except for:

(a) senior secured notes of Atlantic Acceptance Corporation Limited carried at $875,000 which is 70% of their face value;

(b) certain promissory notes carried at a nominal value of $1.00.

Included in the balance are mortgage loans of $291,953 to certain senior officers in order to assist them in purchasing houses. Repayments of $9,492 were received during the year on these loans.

7. Other Investment

This investment represents the cost of 243,000 common shares (200,000 in 1969) of Transair Limited which had a quoted market value of $765,000 at December 31, 1970 ($830,000 at December 31, 1969). The dollar amounts do not necessarily represent the value of this holding which may be more or less than the amounts indicated by the market quotations.

8. Joint Ventures

The Company has:

(a) a 55% investment in a residential land development project in Saskatoon carried at cost, plus the Company's share of income less losses since acquisition;

(b) a 75% interest in a nearly-completed residential-commercial building project in Winnipeg carried at cost;

(c) a 75% interest in an office building project under construction in Calgary carried at cost.

9. Fixed Assets

Fixed assets, at cost, consist of the following:

	1970	1969
Land and land improvements	**$1,112,589**	$ 849,426
Buildings	**3,706,416**	3,620,602
Machinery and equipment	**6,596,956**	6,887,830
Country Club and golf course facilities	**1,474,448**	1,294,496
Clay deposit	**311,516**	311,516
	13,201,925	12,963,870
Less accumulated depreciation, depletion and amortization	**4,824,486**	4,803,255
	$8,377,439	$8,160,615

10. Bank Indebtedness

Assets having a book value in excess of the bank indebtedness have been pledged as collateral against this liability.

(Continued on page 14)

Notes to the Consolidated Financial Statements 1970 (continued)

11. Long-term Debt

Long-term debt consists of the following:

	1970	1969
Great Northern Capital Corporation Limited—		
5½% notes due 1971 to 1976 (U.S. $3,100,000 in 1970; U.S. $3,300,000 in 1969)	$ 3,175,640	$ 3,567,564
6—10¾% loans due 1971 to 1976 (U.S. $7,093,550 in 1970)	7,266,631	—
	10,442,271	3,567,564
Subsidiary Companies—		
7% subordinated convertible debentures Series A due June 30, 1973 $3,551,500 Less inter-company holdings 2,818,100	733,400	738,400
7½% provincial development loans	1,886,609	1,941,194
6% first mortgage bonds due March 31, 1971	100,000	200,000
Mortgages—		
6% due 1971 to 1978	867,958	1,203,498
6¾% due 1971 to 1977	388,700	—
7% due 1971 to 1990	4,428,102	4,675,127
7½% due 1971 to 1976	384,157	391,577
8% due 1971 to 1979	1,031,803	1,040,803
9% due 1971 to 1975	1,043,150	—
9⅜% due 1971 to 2006	775,967	516,183
Other	595,678	1,516,506
	12,235,524	12,223,288
Total long-term debt	22,677,795	15,790,852
Less instalments included in current liabilities	3,306,860	2,142,778
	$19,370,935	$13,648,074

Amounts due on repayment of long-term debt in each of the next five years are as follows:

1971	$3,307,000	1974	$2,856,000
1972	$2,507,000	1975	$3,067,000
1973	$3,327,000		

Pursuant to the terms of the agreement in connection with the issuance of the 5½% notes due December 1, 1976, the Company may not make any distribution to the shareholders by way of dividends or otherwise in cash or other assets except to the extent that any such distribution shall be represented by consolidated net earnings accrued since December 1, 1957. The Company is required to apply to the prepayment of the notes, without premium, the sum of U.S. $500,000 on December 1 in each of the years 1971 to 1975 inclusive, and U.S. $600,000 on December 1, 1976. The Company may prepay the 5½% notes at any time upon payment of a premium of 1¾% to November 30, 1971 decreasing ¼% annually to November 30, 1976 and without premium thereafter.

As a result of the supplemental trust indenture entered into in 1969, the 7% subordinated convertible debentures Series A of Home Smith International Limited, a subsidiary company, are convertible at the option of the holder into shares in the capital stock of the Company at $6.00 per share prior to redemption or maturity (see note 13). These debentures are redeemable at the option of the subsidiary in whole or in part at 101½% of the principal amount up to and including June 30, 1971 and at decreasing premiums thereafter prior to maturity plus accrued interest to the date of redemption.

12. 5% Convertible Income Debentures

The debentures were issued under a trust deed which contains as part of its provisions the following:

(a) Interest is payable May 15 at 5% per annum only if and to the extent that the profits of the Company for the period from January 1, 1969 up to and including the December 31 immediately preceding the next succeeding May 15 interest payment date in the aggregate exceed the total amount, if any, previously paid by the Company by way of interest on the debentures.

(b) Any distribution to shareholders by way of dividends or otherwise in cash or other assets is restricted except to the extent that consolidated net profits as defined are available for such payments. The Company also covenants not to issue any shares of any class or to change or reclassify any common shares into shares preferred as to dividends or as to distribution of assets.

(c) The debentures are convertible into common shares of the Company after May 15, 1971 at the following prices: $10.00 per share up to May 30, 1972; $12.50 per share up to May 30, 1973; $14.28 per share up to May 30, 1974; $16.66 per share up to May 30, 1975 and $20.00 per share up to May 15, 1979.

(d) The debentures are redeemable at par at the option of the Company in whole or in part on or after May 15, 1971 and before maturity on May 15, 1979.

13. Capital Stock

Capital stock issued during the year consists of the following:

	Number of Shares	Total Consideration
Shares issued for a consideration of $6.16 each in exchange for shares of Home Smith International Limited (formerly Western Heritage Properties Limited) on a basis of one common share of the Company for each two common shares of Home Smith International Limited	1,325	$8,162
Shares issued at $6.00 each on conversion of $5,000 debentures of a subsidiary company (see below)...	834	5,004
	2,159	$13,166

In 1969, the Company entered into supplemental indentures with the holders of 7% subordinated convertible debentures Series A due June 30, 1973 and share purchase warrants of Home Smith International Limited. The supplemental indentures provide that the Company guarantees the performance of all Home Smith obligations under the original indentures and that the conversion privileges and rights of purchase provided for under the indentures shall be exercisable in shares of the Company up to June 30, 1973 on the basis of (i) one share of the Company for every $6.00 principal amount of debentures; (ii) one share of the Company for every two share purchase warrants plus $7.00.

The Company has set aside 1,808,903 common shares for the following purposes:

Conversion of 7% subordinated convertible debentures Series A of Home Smith International Limited (see above). (Includes 469,683 shares set aside for the $2,818,100 of debentures held by a subsidiary)	591,916
Exercise of share purchase warrants of Home Smith International Limited (see above)	129,277
Conversion of 5% convertible income debentures of the Company (note 12)	967,710
Stock option plan	120,000
	1,808,903

(a) Under the stock option plan, the Company has granted to senior officers options on 40,000 common shares at $5.68 during the year and 10,000 common shares at $6.86 subsequent to the year end. These options are exercisable at varying dates expiring February 1, 1974 and July 6, 1976, respectively.

(b) Under an agreement with McIsaac Investments Limited regarding the purchase of all the outstanding shares of GNC Industries Limited there is provision for payment of an additional purchase price over the original purchase price based on the capitalization of a weighted average of the consolidated earnings of GNC Industries Limited for the years 1969, 1970, and 1971. Any additional purchase price so calculated will be satisfied by the issue of shares of the Company at the then current market price.

14. Earnings per Share

	1970	1969
Earnings per issued common share (see (a) below)		
Before extraordinary items	**$ 0.44**	$0.30
After extraordinary items	**1.39**	0.97
Fully diluted earnings per share (see (b) below)		
Before extraordinary items	**0.47**	0.34
After extraordinary items	**1.08**	0.84

(a) Based on the weighted average number of shares outstanding during the year.

(b) In the above summary, the fully diluted figures reflect the income per share that would have existed if:

(i) all the 5% convertible income debentures had been converted into common shares at $10.00 per share on June 1, 1969;

(ii) all the 7% subordinated convertible debentures of Home Smith International Limited, excluding those held intercorporately, had been converted on January 1, 1969;

(iii) all the outstanding share purchase warrants of Home Smith International Limited had been exercised on January 1, 1969;

(iv) all stock options granted had been exercised on April 1, 1970 the date of issue.

For the purpose of the calculations in (iii) and (iv) above, earnings of $99,500 ($35,900 in 1969) have been imputed at a rate of interest based on the current cost of the Company's bank borrowings.

The Company does not anticipate that any dilution will result from the agreement referred to in note 13 (b) and, accordingly, has not reflected such in the above calculations.

(Continued on page 16)

Notes to the Consolidated Financial Statements 1970 (continued)

15. Commitments and Contingent Liabilities

(a) As at December 31, 1970 subsidiary companies are contingently liable for discounted sale agreements and conditional sale contracts in the approximate amount of $3,653,000 ($2,365,000 in 1969) and mortgage loans in the approximate amount of $528,000 ($372,500 in 1969).

(b) In connection with the Company's joint ventures it is contingently liable for all the indebtedness of these joint ventures which approximates $1,740,000 at December 31, 1970. Against this contingent liability the Company would have claims on the related assets of the joint ventures.

(c) At December 31, 1970 the Company is committed to expend a further approximate amount of $1,500,000 on construction and development projects which are presently in progress.

16. Extraordinary Items—Other

Details of extraordinary items—other, included in the consolidated statement of income, are as follows:

Net gain on foreign exchange resulting from the freeing of the Canadian dollar	$ 559,737
Write-down of Empire Clay assets to net realizable value due to plant shut-down	(607,329)
	$ (47,592)

17. Income Taxes

The loss carry-forward tax credits shown on the accompanying consolidated statement of income became available as a result of the application of tax losses of certain subsidiaries, principally Home Smith Limited. It is expected that through utilization of loss carry-forwards, further reductions of future income taxes otherwise payable of approximately $8,000,000 will be available and no substantial amount of income tax will be payable over the next few years on the sales of the Company's Canadian land inventory.

18. Remuneration of Directors and Senior Officers

The total remuneration paid or payable by the Company and its subsidiaries to its directors and officers with respect to the year ended December 31, 1970 amounted to $288,432.

19. Subsequent Events

(a) Subsequent to December 31, 1970 one of the Company's subsidiaries borrowed U.S. $1,200,000 at 9½% which will be retired from 1972 to 1976. The repayment of the mortgage loan is fully privileged with no bonus or penalty at any time during its term.

(b) The Company has arranged a 10½% 25-year mortgage on one of its income-producing properties in the amount of $2,700,000 of which $700,00 is contingent upon achieving a certain occupancy level.

Auditors' Report

To the Shareholders of Great Northern Capital Corporation Limited:

We have examined the consolidated balance sheet of Great Northern Capital Corporation Limited and its subsidiary companies as at December 31, 1970 and the consolidated statements of income, surplus, and working capital and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change described in note 2 (b) and after giving retroactive effect to the changes described in note 2 (a) with which we concur.

Toronto, Canada
February 23, 1971

CLARKSON, GORDON & CO.
Chartered Accountants

Statistical Review

Five Year Summary (In Thousands of Canadian Dollars)

Income	**1970**	**1969**	**1968**	**1967**	**1966**
Gross revenue:					
Land sales	**$ 9,781**	$ 9,043	$ 9,034	$ 6,213	$ 9,217
Rentals from income-producing properties	**925**	339	—	—	—
Manufacturing and other income	**19,303**	16,516	5,108	3,798	3,538
Leasing, interest and other income	**2,396**	734	732	372	249
Income before extraordinary items	**1,033**	693	2,054	440	1,240
Net income	**3,234**	2,230	3,822	958	2,511
Year-end Financial Position					
Total assets	**60,710**	44,540	20,164	18,837	20,203
Total shareholders' equity	**14,613**	11,372	8,335	4,366	3,484
Working capital	**5,454**	3,946	5,663	1,125	411
Ratio current assets to current liabilities	**1.3 to 1**	1.4 to 1	2.4 to 1	1.2 to 1	1.0 to 1
Long-term debt	**29,048**	23,325	7,160	7,846	8,290
Ratio of long-term debt to shareholders' equity	**2.0 to 1**	2.0 to 1	.9 to 1	1.8 to 1	2.4 to 1
Amount per Share					
Earnings before extraordinary items*	**0.44**	0.30	0.99	0.21	0.60
Earnings after extraordinary items*	**1.39**	0.97	1.84	0.46	1.21
Cash flow from operations*	**1.58**	1.47	2.05	0.81	—
Shareholders' equity**	**6.27**	4.97	4.01	2.10	1.67
Fully diluted earnings before extraordinary items	**0.47**	0.34	0.76	0.21	0.60
Fully diluted earnings after extraordinary items	**1.08**	0.84	1.61	0.46	1.19

**based on weighted average number of shares outstanding during the year.*
***based on shares outstanding at end of the year.*

Towers of Polo Park, 666 St. James Street, Winnipeg, Manitoba. Canada's first pre-cast high-rise.
("System Building" developed by Home Smith Limited)

Office Centre on the MacLeod Trail in southwest Calgary, Alberta. Using proved precast construction techniques, the building will be ready for occupancy in August 1971.

Prototype House, 4111 Roblin Boulevard, Winnipeg, Manitoba. The house tha made National TV News. Adapting the system of precast concrete used in the Towers of Polo Park, windows and doors were precast into the wall moulds along with architectural design, treatment, electrical components and a wate proof sleeve. Lower-cost housing can be provided with this proven method o precasting concrete components on site.

As land developers your company's concern extends from the servicing of lots for community living to the creation of lakes for aesthetic enjoyment.

Sherwood Green Stage II, Markham, Ontario
(a project of Home Smith Properties Limited)

First steps in increasing the depth of water so that rancid swamp becomes . . .

. . . a beautiful tranquil new lake. McConnell Lake, Hemlock Farms, Penn. (a project of Home Smith International Limited)

One of eight 65-ton Terex Rear Dump Trucks taking part in International Nickel's rock removal operation to expose an ore body in preparation for mining at Pipe Open Pit near Thompson, Manitoba. To date more than 12 million tons of rock have been hauled from the site. (Sale by Midwest Diesel & Equipment, a division of GNC Industries)

An important step in the manufacture of diamond bits for exploratory and mining operations. Diamond setting is done by means of a hypodermic needle attached to rubber tubing and connected to a vacuum.
(Delro Industries — a division of GNC Industries)

to courtesy Hudson Bay Mining and Smelting Co. Limited.

Much needs to be done before mining towns such as Flin Flon and Thompson Manitoba come into being. The exploratory diamond drilling services provided by your company continue to play a vital part in these and other locations. (Midwest Drilling — a division of GNC Industries)

Safety "grooving" for the Department of Transport at Port Hardy, B.C. Transverse grooves reduce the possibility of tire hydroplaning under wet conditions when an airplane is landing. This pilot grooving application is now being considered for many heavily-used runways at Canadian airports. (Canadian Cutting & Coring — a subsidiary of GNC Industries)

Waterfall, Hemlock Farms, Penn. (a project of Home Smith International Limited)

GNC Great Northern Capital Corporation Limited

Directory

Great Northern Capital Corporation Limited
123 Edward Street, Toronto 101, Ontario.

GNC Industries Limited
Head Office,
123 Edward Street,
Toronto 101, Ontario.

GNC Industries Limited
Western Division,
866 King Edward Street,
Winnipeg 21, Manitoba.

GNC Industries Limited
Brick Division,
P.O. Box 248,
No. 5 Highway,
Burlington, Ontario.

Midwest Drilling
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Winnipeg 21, Manitoba.

Wescore Drilling Limited
860 King Edward Street,
Winnipeg 21, Manitoba.

Delro Industries
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Winnipeg 21, Manitoba.

Midwest Diesel & Equipment
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Winnipeg 21, Manitoba.

Diamond Clay Products Limited
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Canadian Cutting and Coring Limited
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Winnipeg 21, Manitoba.

Canadian Cutting and Coring
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119 Skyway Avenue,
Rexdale, Ontario.

Canadian Cutting and Coring
(Vancouver) Limited,
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Vancouver 131, British Columbia.

Columbia Forest Products Ltd.
866 King Edward Street,
Winnipeg 21, Manitoba.

Dormond Industries Limited
1150 Sanford Street
Winnipeg 21, Manitoba.

Home Smith Limited
Head Office,
35 Old Mill Road,
Toronto, Ontario.

Home Smith Properties Limited
Regional Office—Eastern Canada,
35 Old Mill Road,
Toronto, Ontario.

Old Mill Restaurant
21 Old Mill Road,
Toronto, Ontario.

Home Smith Properties Limited
Regional Office—Western Canada
2000 Oak Street,
Sherwood Park, Alberta.

Home Smith International Limited
U.S. Regional Office,
222 Cedar Lane,
Teaneck, New Jersey 07666
U.S.A.

Hemlock Farms
Lords Valley,
Hawley, Pennsylvania,
U.S.A.

Lake in the Clouds
c/o Hemlock Farms
Lords Valley,
Hawley, Pennsylvania,
U.S.A.

Rainbow Lake Club
Town of Indian Lake,
New York 12842
U.S.A.

The Headlands
On Point Au Roche, Lake Champlain,
Box 695,
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U.S.A.

Great
Northern
Capital
Corporation
Limited

GNC